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Tobacco and Products

Annual

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Report Highlights:

MY 2001 tobacco production is forecast to decrease to 92,100 metric tons (MT) as farmers switch from tobacco to other profitable crops. Smoking remains popular and is expected to increase during 2001 despite a government campaign to discourage smoking. U.S. tobacco exports are forecast to increase gradually because of increasing demand for quality cigarettes.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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TOBACCO

PRODUCTION

MY 2001 total tobacco production is forecast to decrease 12 percent to 92,100 metric tons (MT) due mainly to a decrease in area as a result of a campaign by cigarette companies to discourage excessive production. Market observers expect farmers will reduce flue-cured and oriental production and switch to other crops, including sugarcane and vegetables, to avoid problems disposing of their produce during MY 2001. Total MY 2000 tobacco production has been revised upward to 104,096 MT, based on better yields.

Tobacco is grown mainly in the North West Frontier Province (NWFP) and Punjab and is an important cash crop. Flue-cured and burley tobaccos are used primarily in higher-quality cigarettes. Oriental varieties (known locally as White Patta) are used in low-quality cigarettes and for chewing tobacco. Dark air-cured varieties are used mainly for filler, while light air-cured varieties are used primarily for traditional Pakistani tobacco products. Yields in Pakistan are about twice those for neighboring countries largely due to the extension services provided by the industry. Quality, however, is improving only slowly due to problems related to climate and soil. Farmers have started inter-cropping tobacco with vegetables and sugarcane to increase returns.

Table 1. Tobacco Area and Production (Farm Weight)

Tobacco Type	AREA (Hectares)			PRODUCTION (MT)		
	1999	2000	2001	1999	2000	2001
Flue-cured	24,661	27,376	24,000	60,230	65,000	55,000
Dark Air-Cured	1,190	902	950	3,660	2,440	2,500
Oriental	9,467	8,069	7,000	17,780	15,104	13,000
Light Air-cured	18,410	17,198	17,000	20,940	21,260	21,000
Burley	380	237	300	820	292	600
Total	54,108	53,782	49,250	103,430	104,096	92,100

Source: 1999 and 2000 - Pakistan Tobacco Board, 2001 (f) - FAS/Islamabad.

Table 2. Total Unmanufactured Tobacco Production, Supply and Demand

PSD Table						
Country:	Pakistan					
Commodity:	Total Tobacco, Unmfg					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Planted	54108	54108	53650	53782	0	49250
Beginning Stocks	43692	43692	52756	52756	0	59593
Farm Sales Weight Prod	103430	103430	101600	104096	0	92100
Dry Weight Production	94256	94256	92592	94837	0	84094
U.S. Leaf Imports	432	432	450	182	0	200
Other Foreign Imports	400	400	400	300	0	400
TOTAL Imports	832	832	850	482	0	600
TOTAL SUPPLY	138780	138780	146198	148075	0	144287
Exports	4924	4924	6000	6500	0	7500
Dom. Leaf Consumption	80400	80400	82500	81500	0	82200
U.S. Leaf Dom. Consum.	400	400	400	182	0	200
Other Foreign Consump.	300	300	300	300	0	400
TOTAL Dom. Consumption	81100	81100	83200	81982	0	82800
TOTAL Disappearance	86024	86024	89200	88482	0	90300
Ending Stocks	52756	52756	56998	59593	0	53987
TOTAL DISTRIBUTION	138780	138780	146198	148075	0	144287

The Government of Pakistan (GOP) supports tobacco production via a support price mechanism. Generally, the

Price and Grade Revision Committee of the Pakistan Tobacco Board (PTB) sets the support price well below market-clearing levels so that it acts as a floor or minimum guaranteed price. As a result, the government generally does not procure tobacco and the support program does not require government expenditures. The committee has decided to increase the support price of tobacco for MY 2001 by 7 percent for all varieties based on the increases in the cost of production of tobacco.

Table 3. Tobacco Support Prices for Major Varieties (Rupees/Kilogram)

Tobacco Type	1999	2000	2001
Flue-cured	18.95 to 42.64	19.52 to 43.44	20.89 to 46.48
Dark Air-cured	11.76 to 12.53	12.58 to 13.41	13.46 to 14.35
Oriental	8.72 to 20.19	9.16 to 21.19	9.80 to 22.67
Burley	20.85 to 33.35	21.89 to 35.02	23.42 to 37.47
(\$1 = Pak. Rupee)	52.10	54.20	60.00

Source: Pakistan Tobacco Board

Tobacco companies generally contract with growers prior to planting. To help regulate production, the Pakistan Tobacco Board coordinates production, based on the expected demand from the tobacco companies. As a result of bumper harvest during MY 2000 and rising stocks, cigarette companies reduced contracts by 30 percent to 38,645 MT for the MY 2001 crop.

Table 4. Tobacco Requirements of Major Cigarette Companies (MT)

Tobacco Type	1999	2000	2001
Flue-cured	52,465	46,820	34,360
Dark Air-cured	3,220	2,820	1,400
Oriental	8,140	4,895	2,350
Burley	770	585	535
TOTAL	64,595	55,120	38,645

Farm gate prices for the MY 2001 crop are expected to remain at last year's level because of lower demand by the cigarette companies and increased planting above the contract levels. MY 2000 farm gate prices averaged about 30 -35 percent above the procurement price.

Table 5. Average Farm Gate Prices (Rupees/kilogram)

Tobacco Type	1998	1999	2000
Flue-cured	41.01	43.53	44.20
Dark Air-cured	16.63	17.13	17.96
Oriental	25.18	25.25	25.30
Burley	32.83	33.78	37.48

Source: Pakistan Tobacco Board

CONSUMPTION

MY 2001 tobacco consumption is forecast to increase to 83,200 MT as a result of increased demand for tobacco products. An estimated two-thirds of the tobacco produced in Pakistan is utilized for cigarettes and the remainder for other tobacco products.

TRADE

MY 2001 tobacco imports are forecast to increase to 600 MT. The bulk of imports consists of flue-cured tobacco from the United States, which is used to produce higher-quality cigarettes. The U.S. share of the import market is increasing gradually in response to increased demand for high-quality cigarettes. MY 2001 tobacco exports are forecast at 7,500 MT, mainly to Indonesia (via Multinational cigarette manufacturers) Singapore, Dubai, Germany and Egypt.

There are no restrictions on tobacco exports; however, most is unrecorded. As a part of its commitment with the World Trade Organization (WTO) and the International Monetary Fund, the GOP is expected to reduce the duty on unmanufactured tobacco from 35 to 30 percent from July 2001. Imports also are assessed a 15-percent sales tax.

STOCKS

No official data is available. Observers estimate that cigarette manufacturers maintain stocks of 10 to 12 months.

CIGARETTES

PRODUCTION

Official data on cigarette production from the Pakistan Tobacco Board is not very reliable. Cigarette manufacturers generally do not provide accurate data to the Board because they have to pay taxes on their declared production. The new military government has begun to strictly enforce tax collection from manufacturers. As a result, some manufacturers reportedly have gone out of business. Currently, about 24 manufacturers operate in Pakistan. Two of the largest--Lakson Tobacco Company and Pakistan Tobacco Company--account for 50 and 40 percent of total cigarette production respectively.

Table 6. Cigarette Production, Supply and Demand.

PSD Table						
Country:	Pakistan					
Commodity:	Tobacco, Mfg., Cigarettes					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Filter Production	51495	51495	53000	48413	0	49000
Non-Filter Production	75	75	70	76	0	75
TOTAL Production	51570	51570	53070	48489	0	49075
Imports	3980	3980	4330	4000	0	4000
TOTAL SUPPLY	55550	55550	57400	52489	0	53075
Exports	200	200	400	300	0	350
Domestic Consumption	55350	55350	57000	52189	0	52725
TOTAL DISTRIBUTION	55550	55550	57400	52489	0	53075

CONSUMPTION

No official data on cigarette consumption is available. However, by using sales as a proxy, MY 2001 consumption is forecast to increase to 53 billion pieces--or about 2 percent over 2000 sales of 52 billion. The GOP prohibits smoking in offices and airplanes and has launched a radio and television campaign to discourage smoking. Even so, smoking continues to increase. In an effort to increase sales during MY 2000, the major cigarette companies have announced a 50-percent reduction in the prices of their medium-priced brands. Indications are this campaign will result in increased cigarette sales in 2001.

TRADE

Because a large portion of cigarette trade is unrecorded (smuggled through Afghanistan), there is a large discrepancy between official and unofficial trade data. The trade data in the Production Supply and Demand above is based on unofficial estimates, while the official statistics are presented below. Smuggled cigarettes include most of the popular international brands. As with tobacco, the duty on imported cigarettes is also expected to reduce to 30 percent in the forth coming budget (plus a 15-percent sales tax) from July 2001.

Table 7. Official 1999-2000 Cigarette Imports

Import Trade Matrix			
Country:		Units:	No. (000)
Commodity:			
Time period:	Jan-Dec		
Imports for	1999		2000
U.S.		U.S.	
Others		Others	
Dubai	2165	Bangladesh	210
Malaysia	600	Belgium	1200
Netherlands	2572	Dubai	210
Singapore	1248	Singapore	4821
Switzerland	2990	Switzerland	3257
U.K	16735	U.K	3460
Total for Others	26310		13158
Others not listed			68
Grand Total	26310		13226

Table 8. Official 1999-2000 Cigarette Exports

Export Trade Matrix			
Country:		Units:	No (000)
Commodity:			
Time period:	Jan-Dec		
Exports for	1999		2000
U.S.		U.S.	2050
Others		Others	
Dubai	4000	Dubai	17360
		Yemen	440
Total for Others	4000		17800
Others not listed			
Grand Total	4000		19850